

## **DECISION MEMORANDUM**

**TO: COMMISSIONER KEMPTON  
COMMISSIONER SMITH  
COMMISSIONER REDFORD  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL**

**FROM: WELDON STUTZMAN  
DEPUTY ATTORNEY GENERAL**

**DATE: MARCH 8, 2010**

**SUBJECT: CASE NO. IPC-E-09-34  
IDAHO POWER'S APPLICATION FOR APPROVAL OF THE  
PURCHASE OF ENERGY FROM THE NEAL HOT SPRINGS UNIT NO. 1  
GEOTHERMAL GENERATION FACILITY**

On December 28, 2009, Idaho Power Company filed an Application requesting an accounting order authorizing the Company to recover purchases of energy and associated costs from the USG Oregon, LLC, Neal Hot Springs Unit No. 1 geothermal generation facility. The Company seeks recovery of its costs and purchases in its annual Power Cost Adjustment (PCA).

Idaho Power indicated in both its 2004 and 2006 Integrated Resource Plans (IRPs) that it intended to actively seek acquisition of geothermal generating resources. In 2006, the Company issued a request for proposal (RFP) to acquire geothermal resources and ultimately entered into an agreement with U.S. Geothermal to purchase power from its Raft River No. 1 geothermal power plant. Idaho Power issued a new request for proposal in 2008 to acquire additional geothermal resources. The Company received three responses, two of which were withdrawn by the bidders. The Company concluded that the third bid was too speculative and was therefore unacceptable. The Company's Application states that this experience with the unsuccessful RFP process demonstrates that "the competitive RFP process is not the optimal means to acquire geothermal resources." Application, pp. 3-4. Accordingly, the Company actively pursued discussions with developers of five different potential geothermal sites, including the Neal Hot Springs site. The Company believes the Neal Hot Springs development is advantageous for several reasons, including (1) substantial prior geotechnical exploration at

the site, (2) its location in Idaho Power's service area and proximity to Treasure Valley load centers, (3) available transmission capacity, and (4) favorable energy pricing in comparison to other proposals.

On December 11, 2009, Idaho Power and USG Oregon, LLC entered into a Power Purchase Agreement providing for the Company's purchase of energy from the Neal Hot Springs Unit No. 1 geothermal generation facility. USG Oregon, LLC is a subsidiary of U.S. Geothermal. The Neal Hot Springs project is located approximately 12 miles west northwest of Vail, Oregon. The project is expected to produce approximately 22 MW of power with an estimated online date late in 2012. The Purchase Agreement provides an initial term of 25 years with an option for Idaho Power to extend the term of the Agreement. The Agreement provides that Idaho Power will receive the rights to all environmental attributes and renewable energy credits now available or created during the term of the Agreement. The Agreement grants Idaho Power the first right of offer to participate in any future U.S. Geothermal resource development at the site or in close proximity to the site.

The energy price stated in the Agreement will be seasonally adjusted consistent with seasonality factors currently used in Idaho Power's PURPA agreements. The Company asserts that seasonal prices give the correct price signal by promoting production when the value of the energy to the Company is highest. Beginning in 2012, the flat energy price is \$96/MWh. The price escalates annually by 6% in the initial years and by 1.33% in the later years of the Agreement. The approximate 25-year levelized contract price is \$117.56/MWh. This compares to a levelized price for a 20-year PURPA contract of \$95.56/MWh. The Company asserts that, while the price of energy under this Agreement is higher than energy purchased under PURPA contracts, there are benefits to this Agreement that bring value to Idaho Power's customers that PURPA contracts do not. The Company identifies these benefits as (1) the Company's rights to any of the project's renewable energy credits, (2) the limited ability to curtail energy, (3) the right of first offer on ownership of other site development, (4) exploration, development and construction milestone requirements and associated damages, and (5) the right to extend the terms of the contract. The Application states that with the addition of a relatively minor system upgrade, there is already sufficient firm transmission capacity available for the full output of the project to be delivered to Idaho Power's load centers.

Because the Agreement is not a PURPA contract, the Company proposes that the cost of power purchased under the Agreement be recovered in its annual PCA in a manner similar to other non-qualified facility power purchase expenses. The Company requests that its Application be processed by Modified Procedure, that the Commission find that the Agreement is prudent for ratemaking purposes and that the Commission approve its request for recovery of the power purchase expense associated with the Agreement in the Company's power cost adjustment rate.

Staff recommends the Commission issue a Notice of Application and Notice of Modified Procedure providing a 45-day comment period and 10-day reply comment period.

### **COMMISSION DECISION**

Should the Application of Idaho Power Company for approval of its Purchase Power Agreement with USG Oregon, LLC be processed by Modified Procedure with a 45-day comment period and a 10-day reply comment period?



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Weldon B. Stutzman  
Deputy Attorney General

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